

## CREDIT REVIEW & PROJECT AFFORDABILITY

The primary purpose for evaluating a municipality's financial condition is to determine if the municipality is able to repay the proposed Environmental Improvement Fund (EIF) loan. Inability to make timely payments on an EIF loan not only adversely affects the EIF but may also affect the municipality's credit rating and future borrowing ability.

The Wisconsin statutes and administrative rules that established the EIF provide for supplemental security features to protect the financial integrity of the EIF. A municipality that issues a revenue bond as collateral for an EIF loan must agree that the municipality will pay for water/wastewater services rendered in an amount equal to the loan payment in the event utility system revenues are insufficient. Additionally, the Fund is required to intercept and withhold any state aid payments to a municipality if the municipality is not current on its EIF loan payments. The EIF is also authorized to impose a state tax levy on the county in which the project is located if timely loan payments are not made by the municipality to the EIF.

Because the security features described in the above paragraph are only intended to be supplemental, and are not applicable in all situations, the primary source of repayment for EIF loans is the capacity of the municipality and its utility to generate the required debt service payments. The following are some of the issues that are typically considered in evaluating municipal credit capacity and project affordability:

### General Credit Issues

- Has the municipality defaulted on any of its prior debt issues?
- What is the source of revenue for repaying the proposed EIF loan? [Property Taxes, User Charges, Special Assessments, or a combination]
- Are there restrictions on what additional debts can be issued by the municipality? [Either local debt restrictions or restrictive covenants in outstanding debt issues?]
- What is the municipality's plan for financing any project costs that are not eligible for EIF financing?
- Do the amount and the timing of the municipality's revenues match up with the proposed loan payment schedule?
- Does the municipality have any special financial contracts or a special user rate schedule with a private company that prevent it from issuing tax-exempt debt for the proposed project under existing IRS regulations? [*Note: the EIF is structured to accept only tax-exempt bonds or tax-exempt notes as collateral for loans.*]
- If the municipality is receiving project funding from multiple sources, will the funding from the various sources all be available at the same time (e.g. at the start of construction)?
- Does the municipality have plans to borrow for large future projects that need to be considered when structuring the current project financing?

### Revenue Bonds for Water or Sewer Projects

- What utility revenues are already pledged for outstanding revenue bond issues?
- What is the projected user charge that a typical residential household will have to pay in order to cover the annual Operation & Maintenance, Debt Service and Replacement/Depreciation expenses of the water/wastewater system if the proposed project is constructed?
- Based on the income data available for the municipality, is it likely that the residential users will be able to afford the user charge amount necessary to support the water/wastewater system? Will the proposed user charge result in migration of population/businesses out of the municipality or an unusually high level of delinquent water/sewer bills?
- What is the average annual water/wastewater system cost per residential household as a percent of the estimated median household income of the municipality?
- How much will the typical annual water/wastewater costs per household increase if the new project is built?
- For projects where the resultant water/sewer user charges will be relatively high, what user charge cost information has been disclosed to the residents of the municipality (e.g. public meetings, newspaper, radio, mailings...)?
- For projects where the resultant water/sewer user charges will be relatively high, what evidence of public support for the project is available?
- Is the water/wastewater system dependent on one large industrial or commercial user for a large portion of its revenues? If the large user went out of business or relocated out of the municipality or did its own water/wastewater treatment, would the municipality still be able to make its loan payments?
- If the municipality is planning to use special assessments for making the EIF loan payments, do the annual special assessments revenues match up with the proposed loan payments on the project? *[Note that the EIF does special assessment loans as revenue bonds that include a pledge of special assessments.]*
- Are all of the revenues of the water/sewer utility predictable and recurring revenues? If not, do some need to be discounted for purposes of insuring sufficient revenues and compliance with debt coverage requirements?

### General Obligation Notes or Bonds for Water/Sewer Projects

- If the municipality is issuing a general obligation (GO) note or bond as security for the EIF loan, is the amount within the statutory limit (5% of equalized value) for total GO borrowing? How much GO capacity will the municipality have left for emergency borrowing needs?

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